

STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE

FILING INSTRUCTIONS

Every insurer wishing to change any rules, rates, forms, or introduce a new program must complete a **Rate Application** or **Forms Application** and file it to the Commissioner. The application must include all data referred to in Sections 1857.7, 1857.9, and 1864 of the California Insurance Code (CIC), a justification of the rate and that the rate meets the applicable requirements of CIC Sections 1861.01 through 1861.16, and any other detailed supporting statistics and information as the Commissioner may require.

Send all applications to:

CALIFORNIA DEPARTMENT OF INSURANCE  
RATE REGULATION DIVISION  
Rate Filing Bureau  
45 Fremont Street, 23rd Floor  
San Francisco, CA 94105

Do not submit any fee with this application. Each insurer will be billed an administrative fee.

Filing Memorandum

Attach a filing memorandum immediately after each CA-RA1. The filing memorandum should indicate the purpose of the filing and provide a summary of proposed changes within the filing.

Application

A **RATE APPLICATION** must be submitted for all rate and rule changes. All filings containing forms (whether company or an advisory organization) must have forms filing pages CA-FA1 and CA-FA2 attached to the rate application.

A rate impact includes, but is not limited to, a change in the rates (increase or decrease) or coverage changes (broadening or restricting).

All Private Passenger Automobile class plans must be filed separately from a prior approval rate application. A class plan must be filed to indicate the rating factors to be applied, relativities for each rating factor, base rate, good driver discount plan and a statistical analysis used to determine the classification variables plus any surcharges or discounts.

Filings for declaration pages, application forms and installment payment plans are considered attachments to the latest applicable filings. Separate approvals will not be issued to these attachments.

### **Number of Copies of the Application and Acknowledgment**

One (1) original and two (2) paper copies of the CDI application and supporting documents must be submitted. ALL filings must contain a self-addressed, stamped envelope for acknowledgment. A copy of the CA-RA1 page will be sent to the filer as acknowledgment.

### **Group Filings**

Group filings can be made for rates, forms, rules and new program filings. If a common database is used by several companies within a group to derive the premium charge, then a group filing may be submitted. A complete group application and supporting documents must be submitted with a **separate CA-RA1 page for each company** within a group filing. In addition, the group filing must explain and support the rate differentials between the companies of the group in Exhibit 24-Group Filing.

### **Printed Rate and Rule Manual Pages**

For filings requesting changes in rates or rules, the revised manual rate and rule pages must accompany the application. Unless the current manual is on file with the Rate Filing Bureaus (identify CDI filing number), provide a copy of the rate and rule pages that are being revised.

### **Underwriting Rules**

When underwriting rules with rate impact are being revised, the proposed underwriting rules as well as the present underwriting rules must be attached to the file. For those programs with different rating tiers, underwriting rules must accompany the filing to show which risks are written in each rate level.

### **Filing by Line of Business Versus by Program**

Filings must be made *per line of insurance* as stated in CA-RA3. For example, Personal Earthquake should be separately filed from Personal Homeowners Multi-Peril. Filings per line of business may be made for specialized or individual programs within the line (such as a Commercial Automobile Auto Dealers). The filing must contain the rules, rates, and forms for each coverage and provide documentation to support the rates

for each coverage. The rates, rules and forms for the same line of business may be combined in one filing. Automobile Liability and Automobile Physical Damage may be combined in a single filing. However, separate CA-RA5 pages must be submitted per coverage (BI, PD, MP, UM, Comprehensive and Collision) as well as a CA-RA5 for all coverages combined. Separate CA-RA6 and CA-RA7 must be submitted for Liability and Physical Damage. Personal automobile data should exclude assigned risk data.

All revisions to existing programs should include all the impacted rules and forms.

### **File and Use Requirements**

File and Use provisions apply **ONLY** to Financial Guaranty and Credit Insurance. For these lines of business, the rate or forms should be submitted on the File and Use format with an explanation for each change.

The change may be implemented by the company without prior approval from the Department of Insurance by stating the effective date. The effective date of the change should be no earlier than the date the application is RECEIVED by the San Francisco filing office. These filings are subject to review and analysis by the Department of Insurance.

### **Forms**

When forms are being revised, the proposed forms must be included with the filing as well as a copy of the current version. The forms must be highlighted to indicate what changes are being made. The application pages must be completed and an explanation of the rate or rate impact must also be included. For forms restricting or deleting coverage, an explanation of prior losses incurred must be included.

### **New Programs**

A new program is a new concept without an existing rate manual, policy forms and underwriting rules. It is also a program that has not been previously written and its filing requires at least one year of projections. A rule filing differs from a new program filing in that rule filings are filings intended to either add, delete or limit specific coverages to an **existing** program.

There is no longer a separate New Program Application. Filings for new programs must be submitted on the **Rate Application**.

At a minimum, provide the projected figures or substitute data on CA-RA5 of the application. The minimum data necessary for new program filings are Projected Written Premium, Projected Earned Premium, Projected Number of Earned Exposure Units, Projected Incurred Losses, Projected ALAE, Projected Expenses (Commissions, Other Acquisition, General Expenses, Taxes, Licenses & Fees and ULAE), and the Projected Reserves (Loss Reserve, LAE Reserve and Unearned Premium Reserve). If relying upon the data from an affiliate within a group, submit the affiliate's historic data ***in addition*** to the projected figures. A complete application for a new program must include CA-RA1, 2, 3, 4, 5, 8, and Exhibit 23-New Program. In addition, **ALL** manual rules, underwriting rules, rates, and forms must be included in a new program filing.

Several filings are required for a new Private Passenger Automobile program. A class plan must be filed to indicate the rating factors to be applied, relativities for each rating factor, base rate, good driver discount plan and a statistical analysis used to determine the classification variables. In addition, a prior approval rate filing is required to support the rate level to be applied.

### **Lack of Data Availability**

When an insurer is requesting the use of substitute data in place of data required by the Department, the company must provide Exhibit 12-Data Availability Report.

### **Required EXHIBITS**

The following is a summary of exhibits that **must** be attached to the application to support the figures applied in ratemaking analysis (CA-RA5). Indicate the appropriate exhibit number in the upper right hand corner of the page. In addition, number the pages in each exhibit in consecutive order.

#### **Exhibit 1-Filing History**

Provide a list of all the previous California Department of Insurance rate filing numbers that have been made for this line, subline, and program within the last three years.

#### **Exhibit 2-Rate Level History**

List all of the rate level changes for the last five years per coverage affected by this filing.

Show the effective date of the rate change. The following is an example for Private Passenger Automobile Liability:

<u>Effective Date</u>	<u>BI</u>	<u>PD</u>	<u>MP</u>	<u>UM</u>	<u>Combined</u>
01-01-94	+10.0%	-5.0%	+1.0%	+4.0%	+8.0%
01-01-93	- 5.0	+2.0	0.0	0.0	-4.0
01-01-92	+ 8.5	0.0	0.00	-10.0	+8.3
01-01-91	+ 5.0	+1.0	0.00	+2.0	+4.7
01-01-90	- 5.0	-2.0	+5.00	0.0	-4.8

Exhibit 3-Premium Adjustment Factor

From the rate level changes in Exhibit 2-Rate Level History, show how the premium adjustment factors in row 3 on CA-RA5 were derived to bring premiums to the current rate level.

Exhibit 4-Premium Trend Factor

Indicate how the premium trend factors in row 4 on CA-RA5 were developed.

Exhibit 5-Allocated Loss Adjustment Expense (ALAE)

Show how the allocated loss adjustment expenses in row 7 on CA-RA5 were determined from the historic costs associated with the adjustment of specific claims.

Exhibit 6-Loss Development Factors

Indicate how the loss development factors in row 8 on CA-RA5 were developed. This exhibit must include the loss development triangle which is the basis of the average of the ratios of losses for the three most recent accident years available for the reporting interval. Insurers should submit sufficient reporting intervals to fully develop the losses. Paid losses and case-specific reserves in Exhibit 6 must correspond to CA-RA7 (page 2 of 3).

Exhibit 7-ALAE Development Factors

Present the computation of the ALAE development factors as in Exhibit 6 which are shown in row 9 on CA-RA5.

#### Exhibit 8-Loss Trend, ALAE Trend, and Expense Trend

Provide support for the loss trend, ALAE trend, and expense trend factors in rows 10, 11, and 23 on CA-RA5. Provide selected annualized trend factors and explain the trending methodology including the trending period for loss trend, ALAE trend, and expense trend. Report paid claim severity and frequency data by calendar quarter for at least 12 quarters.

If using linear or exponential methods to determine the trend, provide the coefficient of determination ( $R^2$ ).

#### Exhibit 9-Catastrophe Adjustment

To support the catastrophe adjustment factors that were shown in row 12 on CA-RA5, show how the multi-year loading was derived. Provide a definition of what is considered catastrophic loss and show how the catastrophic losses were eliminated from the Historic Losses. Indicate the catastrophic reserves and the portion of the catastrophic losses paid.

The filing must have sufficient and corresponding data for the number of years the program has been written. Include ONLY the California actual losses, a list of the causes of loss and the outstanding catastrophic reserves for large loss years.

#### Exhibit 10-Policy Term Distribution

Explain the policy term options that are available and provide the percentage of business written in each option.

#### Exhibit 11-Credibility Adjustment

If the data is not 100% credible, indicate how the loss credibility factor and ALAE credibility factor in rows 13 and 14 on CA-RA5 were determined. Provide the credibility formula or table that was used to derive the factors. Include the credibility criteria (parameters) and appropriate source of substitute data.

#### Exhibit 12-Complementary Losses / Data Availability Report

State how the complementary losses and complementary ALAE in rows 15 and 16 on CA-RA5 were determined.

Support why data are unavailable to the insurer. The explanation should include: reasons why data is unavailable, references to the practices of similar insurers, state the source of the substitute data, justify the use of the substitute data, discuss other feasible alternatives in place of the substitute data, and provide a plan for providing the Department with the company's data when adequate data is obtained. Provide a statistical plan to show that data elements will be collected for future rate development.

#### Exhibit 13-Projected Expenses / Interjurisdictional Expense Allocations

When reliable California data exist, the California data should be used to determine the projected expenses in rows 17, 18, 19, and 20 of CA-RA5. Exhibit 13 should provide the actual dollars for each of the above expenses for the recent three years. Explain how the projected dollar figures for the expenses were derived. **The percentages must be calculated over the direct earned premium.**

In addition, California allocation of multi-state data should be provided. Where California data varies from the California allocation of multi-state data, the insurer must demonstrate the accuracy of the data and justify any deviation from the insurer's experience in other states.

If data is maintained on a multi-state basis only or if California data are not reliable, the multi-state data allocated to California must be used.

#### Exhibit 14-Unallocated Loss Adjustment Expense (ULAE)

Detail how the unallocated loss adjustment expenses in row 21 of page CA-RA5 were derived. ULAE is loss adjustment expenses not considered as ALAE.

#### Exhibit 15-Other Expense Items

Provide a breakdown of other expenses not included in Exhibit 13-Projected Expenses / Interjurisdictional Expense Allocations and Exhibit 14-Unallocated Loss Adjustment Expense.

These expenses should be listed separately by type of expense and include the following:

- Political contributions and lobbying
- Executive compensation for the five highest-paid policymaking positions
- Bad faith judgments
- All costs for unsuccessful defense of discrimination claims
- Fines and penalties
- Institutional advertising expenses
- All payments to affiliates that exceed fair market rate

#### Exhibit 16-Ancillary Income

Show the breakdown of the ancillary income for the recent three years. Ancillary income is defined as income that was derived from operations directly related to insurance (such as premium finance revenues and membership dues but not insurance premium). Expenses associated with collecting ancillary income must not be deducted from the ancillary income.

#### Exhibit 17-Federal Income Tax Rate

Indicate how the federal income tax rates in row 25 on CA-RA5 were determined by providing the federal income tax rate reported for the most recent three years. Give a full account of all the tax credits and offsets that were used or available to the insurer.

#### Exhibit 18-Projected Investment Income Ratio

Show how the projected investment income ratio in row 26 on CA-RA5 was derived. This exhibit also should show the insurer's California investment income ratio for the most recent three years and the California average realized capital gains for the last recent five years.

#### Exhibit 19-Loss Reserves, Loss Adjustment Expense Reserves, and Unearned Premium Reserves

Indicate how the loss reserves, LAE reserves, and unearned premium reserves in rows 27, 28, and 29 on CA-RA5 were derived. Provide two years of the most recent calendar year data for each of these reserves. This exhibit **MUST** reconcile with the page 14 of the annual statement.



#### Exhibit 20-Insurer's Ratemaking Calculations

Provide a full explanation of the development of the insurer's calculations of the indicated rate change and proposed overall rate change. The components indicated in the CA-RA5 pages plus any additional relevant ratemaking data should reconcile with **Exhibit 20**, otherwise a full explanation must be provided.

#### Exhibit 21-Rate Distribution

Demonstrate how the proposed earned premium will be allocated among the rating factors. Provide the current and proposed base rates as well as the percentage change for each base rate. This exhibit should provide the current and proposed base premium to determine the overall impact for **ALL** the changes.

#### Exhibit 22-Rate Classification Relativities

Provide loss experience to support the changes in all rate classification relativities. This exhibit should provide current, indicated and proposed relativities. (Note: Exhibit 22 applies to all lines other than Private Passenger Automobile. For Private Passenger Automobile, a separate classification plan filing must be submitted.)

#### Exhibit 23-New Program

Explain the source used to develop the rates for the new program (such as an affiliated company or unaffiliated company). For new programs that are based upon the loss costs of an advisory organization, indicate the edition date of the loss costs that are adopted by the insurer, state the loss costs multiplier to be applied (should be the latest edition), and detail how the loss cost multiplier was developed (including a breakdown of expenses, unallocated loss adjustment factor, and trend factor).

Identify if the new program or a similar program has been written in California by the insurer or an affiliated company. Explain the reason for the new program development and the relationship and/or differences between the proposed rates, coverage, and underwriting requirements to any similar existing programs.

If the program has not been written in California by the insured or affiliate, indicate if the new program has been written in another state. Again, describe how the rates were determined.

Explain if the out-of-state rates were considered in the calculation of California rates.

All new program filings must contain the corresponding rules, rates, underwriting guidelines, and forms. At a minimum, the CA-RA5 pages must be completed with projected data using the projected column. These are line numbers 1, 2, 5, 6, 7, 17, 18, 19, 20, 21, 27, 28 and 29.

New programs with entirely new concepts and without any source or basis from which rating data may be available must be submitted with a statistical plan that shows how data will be captured for future rate development.

Exhibit 24-Group Filing

Identify, support and explain the rate differentials applied by the companies within the group filing.